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SUBJECT: East Java: Lapindo Mudflow Devastation Continues

Ref. A: Jakarta 1038 (notal), Ref. B: Jakarta 1629

1. (SBU) SUMMARY: ConGen Surabaya and Embassy Jakarta officers accompanied EAP Assistant Secretary Christopher Hill to the Lapindo mudflow disaster (reftel A) and surrounding areas on May 28, the day before the one year mark of the disaster. The mudflow continues at approximately 150,000 cubic meters per day and the mouth of the flow has grown to 150 meters in diameter. The Porong Road and Surabaya-Malang rail line reopened May 20 after being closed for seven weeks. 8-10,000 displaced Porong residents still live in the open-air Porong Market and 40-60,000 Porong residents are displaced from 12-13,000 homes already destroyed. The Indonesian Supreme Audit Agency (BPK) estimates economic damages now exceed \$3.7 billion and the National Development Planning Agency (Bappenas) projects Indonesian national GDP will be reduced significantly in 2007 due to effects of the mudflow disaster. National parliamentarians' recent call for an interpellation, demanding the President appear to explain central government's handling of the mudflow (reftel B), is a symptom of growing frustration at a national level over failure to solve the problem or compensate the victims. END SUMMARY

#### Mudflow Disaster Update

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2. (SBU) Sofian Hadi, Director of Operations for the Mudflow Disaster Management Board (BPLS), showed EAP Assistant Secretary Hill, Embassy Jakarta and ConGen Surabaya officers the extent of the mudflow disaster on May 28, the day before the one year mark of the PT. Lapindo Brantas (Lapindo) gas well drilling accident that started the eruption. Hadi showed us weakening dam walls that are ready to fail again, potentially causing additional flooding. He told us the mud continues to flow at approximately 150,000 cubic meters per day (roughly 1 million barrels) but has recently increased its flow rate. The mud is also changing from primarily fine particles to nearly 40% gravel, dampening BPLS plans to divert the mudflow to a series of irrigation channels and eventually to the sea. Hadi demonstrated BPLS's newest effort to pump muddy water in to the Porong River. The BPLS is currently able to pump 10-20,000 cubic meters per day; however the pump motors frequently seize due to the water's high temperature. Hadi also admitted that there has been little progress on a permanent solution to stopping or managing the mudflow. In addition, the Porong Market internally displaced persons (IDP) camp is still housing 8-10,000 people. Lapindo continues to provide food, water and basic sanitation to the residents. Many of the IDPs stay in the camp rather than accepting rental assistance from Lapindo and scattering their village members

to away from one another. There remain an estimated 40-60,000 people displaced by the mud.

13. (SBU) On June 16, a new 20-foot fountain of water erupted adjacent to the Porong Road, in the Porong Fruit Market. Local newspapers report the "water" is flammable, containing elements of methane gas. BPLS leaders anticipate more flammable geyser eruptions as the newest threat to the sensitive infrastructure at or under the Porong Road.

#### Economic Impacts Mount - Investors Preparing to Leave

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14. (SBU) The economic impact of the mudflow disaster continues to mount, now exceeding \$3.7 billion, according to the BPK. In April 2007, Bappenas released an estimate that mud damage will reduce the Indonesian national 2007 GDP by 1.03%, although this figure is seen as overstated by some outside economic experts. According to BPLS contacts, little progress has been made on moving critical infrastructure, as no GOI funds have been appropriated for the project. New foreign direct investment (FDI) in East Java has slowed to a trickle, with hundreds of millions of approved investments canceled by mainly Asian investors. Several Japanese managers of factories assembling products for export south of the mud told us that their companies are looking to relocate their factories. The transportation difficulties, unreliable gas, water and electricity supplies and the indefinite nature and growing impacts of the mudflow have dimmed business prospects to the point that closing operations and moving their plants to neighboring countries may be their best option. To date, 20-25,000 East Java jobs have been lost due to the mudflow.

#### GOI Rhetoric Pressuring President to Act

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15. (SBU) Rhetoric coming from various parts of the GOI is changing from conciliatory and accepting of the government's actions, to frustrated and confrontational. The DPR's recent call for an interpellation of President SBY to appear before parliament and explain the government's response to the mud disaster, led by Djoko Susilo East Java representative from the National Mandate Party, expresses the frustration many lawmakers and citizens feel about the deteriorating situation on the ground and the lack of progress in Lapindo paying victims' compensation. Support for the interpellation seems to be faltering as various ministers have privately explained GOI actions to the disgruntled parliamentarians. Another example is the recent statement by Paskah Suzetta, Chairman of Bappenas, that the GOI is developing evacuation plans for the 1.1 million residents of Sidoarjo due to the mud. Local East Java political leaders and the head of the BPLS retired Gen. Sunarso condemned the comment as an overreaction and inflammatory.

16. (SBU) Pol/Econoff heard (via cellphone courtesy of a contact) part of a recent DPR Commission V debate over whether the mud volcano should be classified as a natural disaster or an industrial accident. This highly sensitive issue will have direct impact on possible criminal charges against Lapindo executives, victim compensation levels and sources and financial liability for damages and efforts to combat the mud. The debate was heated, but everyone acknowledged that the impasse on this issue hinders an effective GOI response to the disaster.

#### Comment

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17. (SBU) The May 29 one year anniversary marked a turning point in East Java residents' patience with the GOI's efforts to handle the mudflow. The GOI had been fairly successful in pressuring local authorities to keep a tight lid on criticism of the central government's response to the disaster. However, local authorities have seen little reward for their cooperation and now local and national parliamentarians are much more willing to criticize the central government's lack of progress in managing the ongoing mudflow disaster. GOI inaction combined with Lapindo's failure to

pay already-agreed compensation has frustrated the victims and has left the GOI wide open to political attacks. Even SBY's emotional visit June 24 with mudflow victims at the Presidential Palace brought accusations that this was merely for political purposes in advance of the interpellation.